RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**
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NOVEMBER 17, 1976 **LETTER 681** Nov. 5, DJIA 943.07; PTI 709; A-D Ratio -23.31
Nov. 12, DJIA 927.69; PTI 695; A-D Ratio -23.85

THE PICTURE: Obviously, I can't prove it, but I feel that the thing that has been bothering the US market most is the fact that almost all the ***foreign markets*** are in various states of disarray. The three "big guns" of the Free World are the US, West Germany and Japan. All three boast economies that are relatively healthy, even though sluggish. But the rest of the Free World economies are downright sloppy, and their stock markets reflect it.

Pressure is being put on the US, Germany and Japan to "step on the gas," to stimulate their economies, and thus start the international business ball rolling. But having recently cooled their inflationary pressures, the US, Germany and Japan are understandably reluctant to turn the spigots on again. So that's where we stand, and that's the problem the world's been facing.

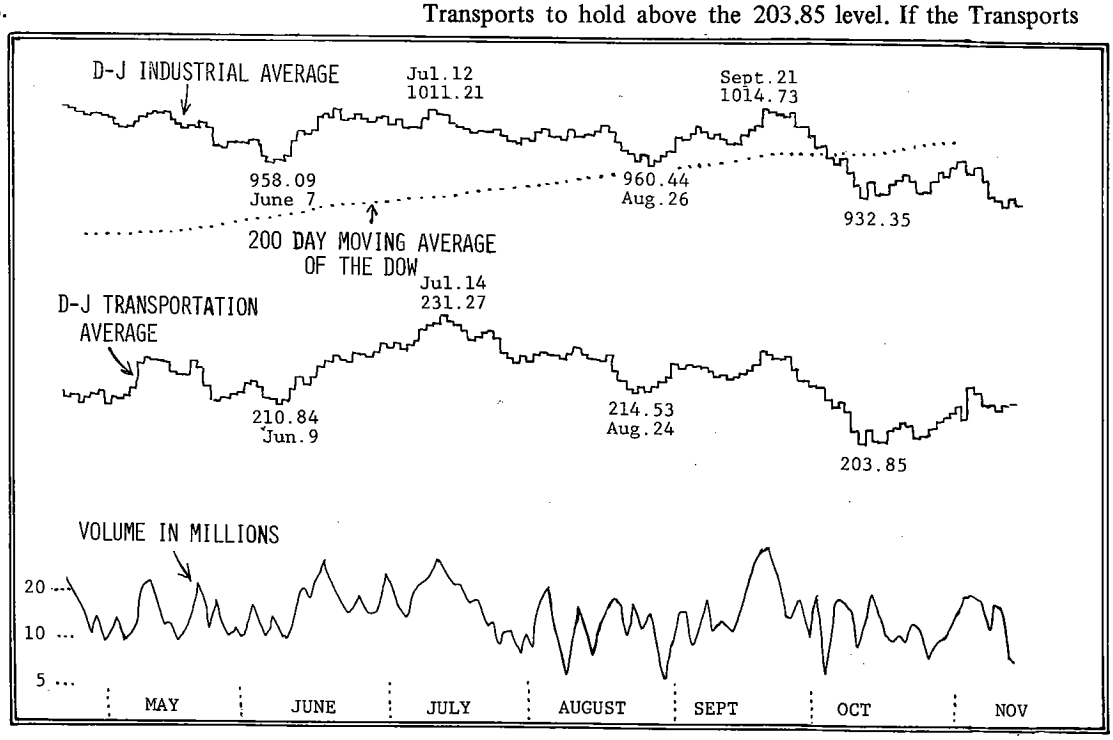
Since I believe the primary trend is bullish, I also believe that in time the Free World will come out of its present era of "stability" (many call it stagnation). It is also very possible that Jimmy Carter and Co. may not want to wait for the natural forces to take hold. Carter didn't seem to me like much of a "waiter" when he wanted the Presidency, and somehow I don't think he will be too patient about the economy. But the only thing we really know about Carter is that nobody really knows a helluva lot about Carter. Therefore, it's going to be January, 1977 or beyond before we find out what our new President has in mind in the way of economic and fiscal policies.

Meanwhile, down in those narrow canyons of Wall Street, gloom reigns, and it's not necessarily based on the prices of stocks and bonds. Members of the NYSE have been taking one of the real beatings of their lives, and the beating is coming from "left field." Last week a seat (membership) on the NYSE sold for $45,000, lowest price in a quarter century. I remember back in 1946 or even in 1956 when the owner of a NYSE seat had prestige, social position, a guaranteed living and a real capital asset. Times have changed. From the $515,000 peak of 1969, seat prices have lost 92% of their value! The talk is now of the NYSE leasing seats (around $13,000 a year), and increasing membership. There is also talk of specialists moving to the exits, of more firms merging, and of a loss of stock sponsorship.

With Wall Street "shrinking," I wake up in the night and find myself wondering who's going to make the market for all those hundreds of smaller companies and all those thousands of over-the-counter equities? If any Washington or New York readers know the answer to that one, maybe they can let me in on it.

THE MARKET: Luckily, it isn't for Richard Russell to solve Wall Street's problems, and perhaps the market has already sensed or even come up with the answers. At any rate, on November 9 the Dow Industrials broke under their October 12 low of 932.35. Thus, one half of the October "technical platform" has been broken. The other half is the October 12 Transport low of 203.85. Dow Theory students know that ***one half of a signal is no better than none.*** Or, to put it the classical way, a penetration by one Average, unconfirmed by the other, is useless for predictive purposes and more often than not, just plain deceptive.

Veteran readers know that I place Dow Theory considerations above everything else in the market. Therefore, I have attached a good deal of importance on the ability (or inability) of the Transports to hold above the 203.85 level. If the Transports



can resist penetration of 203.85 (and they have certainly resisted beautifully, so far), then I would say that (1) the Averages discounted the worst at the October 12 lows, and (2) the market has been in the process of basing and accumulating for an advance, and very likely a broad primary advance up and out of this area. On the other hand, if Transports finally do break below 203.85, it will be obvious that the correction has further to go on the downside, and in that event I would advise taking a very defensive position as far as common stocks are concerned.

As I write this, the economic news has turned positively gloomy. Mr. Burns has told the Senators that he will not "blow up the money balloon," auto sales are running out of gas, the steel industry is closing mills and laying off workers, and it is feared that the big oil companies may be dismantled like so many giant jigsaw puzzles.

But the FACT is that in the face of all this blackish news, we have not yet seen THE TWO Averages plunge below their October 12 lows. A market that holds in the face of bad news is a market that has discounted the news and a market that wants to go higher. So, let's watch those Transports.

I want to make a few further comments regarding the confirmation principle. First, since this is a primary bull market I always give credence to the bullish probabilities. That means that the odds favor the Transports not confirming on the downside. I hope that is clear: the Transports may indeed break 203.85, but bull market odds ***favor*** the bullish resolution, which would be a Transport non-confirmation.

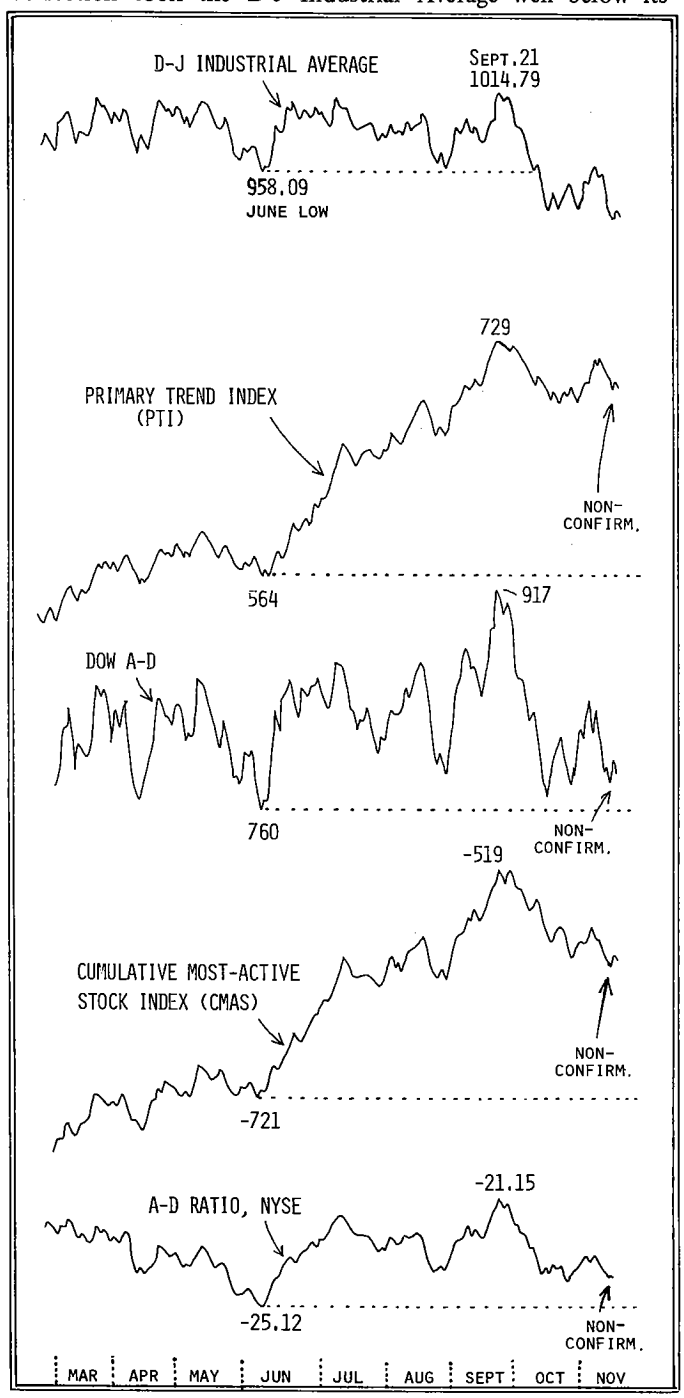
Second, I always prefer a bottom which comes on a non-confirmation, rather than a bottom in which both Averages approach previous lows and both Averages hold above those lows. In other words, I trust a non-confirmation more than I do a mere approach to former lows. I guess the reason I prefer non-confirmations is that they imply more dramatic resistance to decline. For instance, Industrials have broken below the October 12 low. With everyone predicting a "blah" 1977, why don't the Transports follow the Industrials and break below their own October 12 low? Frankly, I don't know the answer, and I only care about whether Transports do or don't break.

The Dow Theory makes no distinction between strength (or weakness) in either Transports or Industrials. But each bull market develops its own characteristics, and the Transports have provided lead characteristics (so far) in this bull market. For instance, at the October, 1974 lows the Industrials (at 584.56) broke their 1970 low, but the Transports (at 125.93) held above their 1970 low of 116.93. Two months later, at the December, 1974 lows the Industrials broke below their October low but Transports held far above the October low. The Transports were again screaming "non-confirmation." Technically, that was how the new bull market was born.

Again, in late-1975 (October) the Transports refused to confirm Industrial weakness, and the market advanced on a broad front into 1976. At the mid-1976 highs, Industrials (July 12) closed at 1011.21, while Transports closed at 231.27 (see page 1 chart). A decline carried into August, followed by a new advance into September. At the September 21 peak, Industrials closed at a new bull market high of 1014.72. But the Transports refused to confirm.

The September 21 Transport non-confirmation set off the September-November, 1976 correction. And now again, it is the Transports which hold the key to the next major direction of the market. And the 203.85 level represents that key. The longer the Transports resist breaking the 203.85 level, the better the odds that they will not, and that the trend is slowly reversing to the upside (in a bull market, if you remember, ***time*** is always in favor of the bulls).

INDICES: A run-down on four critical breadth indices should prove interesting at this time Note that the recent correction took the D-J Industrial Average well below its



June 7 low of 958.09. Yet none of these breadth indices has confirmed on the downside.

The Primary Trend Index (PTI) is curently far above its June low, and on the November slide the PTI held even above its October low. This represents outstanding resistance on the part of the broad technical indicator (made up of four stock averages, a bond average, daily new high-lows, the A-D ratio, and the daily most-actives).

I keep a daily advance-decline index of the 30 Dow stocks, and it is notable that so far Dow breadth has not confirmed Dow price on the downside. Thus, the Dow A-D has held above its June lows on the decline.

The A-D line of the most-active stocks (CMAS) has not been as strong as the PTI but has nevertheless held far above its June low. I consider this to be good action on the part of the most-active stocks on the NYSE.

Finally, the all-important A-D ratio (NYSE) has not confirmed the weaker action of the Dow. The June lows on the A-D ratio are still intact. This index is telling us that since September, the majority of stocks on the NYSE have actually been stronger than the 30 Dow stocks (and this is confirmed by the fact that the very broad NYSE Composite has held above its June low).

IF all these indices continue to hold above their June lows, I would call it a huge plus for the market.

ITEMS: This market has the earmarks of "institutional panic." I believe the institutions and funds got caught with the "wrong mix" in a market that is very attuned to ***yield, quality and value.*** Thus, the institutions have suddenly thrown in their low-yielding chemical stocks, their steels, their aluminums, their coppers, etc. But the bulk of the market has, in fact, held better than the big institutional-type stocks. Most institutional decisions are made by committees and board majorities. Personally, I never saw a committee that did anything right in the market. The more cooks, the lousier the soup.

The D-J Utility Average is just a fraction below its bull market high of 99.02. The D-J 20 Bond Average is just a fraction below its bull market high of 89.86. A bettering of those two highs would hold very bullish implications for the market. I think it's bullish that they have held this well.

On the decline to November 12, the Industrial Average has fallen on 7 out of 8 trading sessions , or 88% of the time! This represents a sort of mini-period of "urgent selling" (for a discussion of urgent selling, see page 4 of the last Letter). The action again suggests to me that there are currently too many people who are too bearish and too willing to dump stocks (all against the ***primary*** bull direction of the market). I call it a plus.

The 13-week moving average (MA) of the Dow is now at 969, the 50-week MA is at 964. The two MA's are therefore 5 points apart, but still in the bullish position. If the Dow closes this Thursday (Nov. 18) at 940, the 13-week MA will dip just under the 50-week MA. If the Dow can close on Nov. 18 at 950, the 13-week MA will hold fractionally above the 50-week MA. But even if the 13-week MA does drop below the 50-week MA, I would hold off running for the exits. I would not run UNLESS those Transports break 203.85. Thus, I want a double bearish signal before advising selling.

QUESTION: Russell, suppose the whole rise from the 1974 lows is just a huge upward correction in an ongoing primary bear market, as so many of your friends in the advisory business claim? Aren't you pressing your luck with all your talk of a big bull market to come and a third phase speculative blow-off and so forth? What if you are completely wrong about the whole picture?

ANSWER: This is the most critical, the most fundamental question that anyone can ask regarding this market. As I've stated repeatedly, in order to function properly in the stock market, you must have knowledge of the direction of the primary trend. To be in the market without this knowledge is tantamount to a ship's skipper attempting to navigate without charts, radio or instruments. It simply cannot be done.

Over the years I have found that the great majority of investors, traders and so-called experts deal with the market on a "news and views" basis. Every day they peruse the *Wall Street Journal* and their local paper, scrutinizing the news and the views in an attempt to figure out which way the market "should" go. Very few of these gentlemen have an overall view or even an instinct for the great tidal force of the market, the primary trend.

I may spend too much time on this subject, but I feel that it is absolutely essential that all subscribers understand the concept of the primary trend. The market subjects investors to a constant barrage of ***fear***, and the only defense against fear is knowledge. So let's start with a bear market bottom. Once the bear market lows are recorded, then (by definition) the primary trend turns bullish (i.e., a new primary bull market is born). The new bull market will turn the Averages and most stocks up, and the mass of the market will continue up until the ***best that can be seen ahead is fully discounted in the price structure***. The bull market will almost certainly go through its three psychological phases. It will be subject to corrections, uncertainties, changes in Presidential administrations, booms, recession, perhaps wars, you name it. But the bull market will not end until it has fully expressed itself. It will not end until it is exhausted, and until the last optimist has spent his last market dollar.

When the bull dies, the bear takes over. Here we have the reverse situation. The bear market takes stocks down, down and still further down ***until the worst that the market can foresee is fully discounted in the price structure.*** In general, a bear market will last about one-third to one-half as long as the preceding bull market. In intensity and violence, bear market action is usually directly proportional to the frenzy and speculation which existed during the preceding bull market. A study of history shows that almost every primary bear market has wiped out 50% or more of all the gains recorded during the entire preceding bull market.

QUESTION: All right, if it's so critically important to know whether you are in a primary bull or bear market (and I see that it is), how do you *identify* a bear market bottom?

ANSWER: There are dozens of techniques, tools, indices, and methods which aid in identifying a bear market bottom, none of them infallible. But a characteristic of every true bear market bottom is that stocks sell "at great values." At a real bear market bottom, stocks tend to sell at bargain prices: minus hopes, minus frills, minus dreams, rumors, optimistic projections. At the lows, stocks sell at or below "known value."

You've probably guessed it, but what I have been leading up to is a discussion of the primary bear market bottom of December, 1974. It is of the utmost importance to be able to identify the 1974 low as a true primary bear market bottom. Because if it was (and I firmly believe that it was), *then everything that has followed is part of a new and continuing bull market.*

Of course, many market pundits and experts deny that the 1974-76 rise has been part of a bull market at all. They claim that it is "a major bear market correction," "an upward mistake," "a Government sponsored rally preparatory to a new plunge through the 1974 lows." I don't believe that. And I feel that those who do must (absolutely have to be) out of phase with the market and the trend of stocks. To be on the wrong side of the primary trend is like driving on the wrong side of the road. You may dodge around and scrape a few fenders for a time, but it's just a matter of time before you run head-on into disastrous reality. It's got to happen.

With all that under our belt, let's now put the 1974 bottom to the test, the *test of values*. One of the best, simplest and most informative charts that I have seen regarding values is put out by the very fine *Schabacker Investment Management* (13024 Chestnut Oak Dr., Gaithersburg, MD 20760). The chart deals with the Dow Industrial Average (which is made up of thirty investment grade stocks) and three fundamental gauges of Dow values.

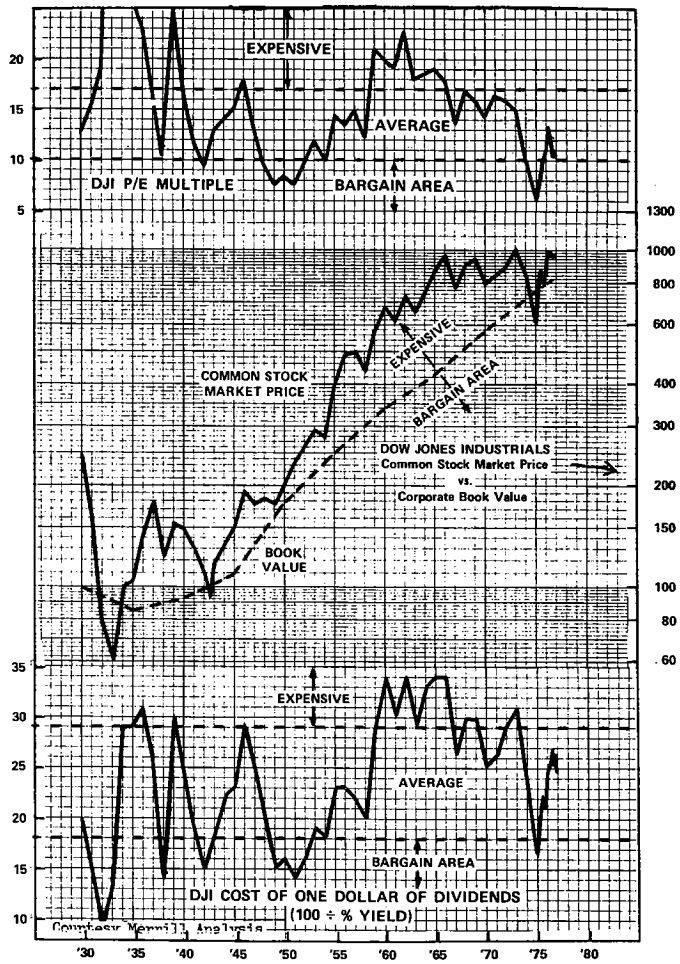
The accompanying (monthly) chart traces the Dow and the indices from the period of 1930 to present. At the top of the chart, we see the *price/earnings ratios* for the Dow. Now notice that only three times in modern history has the Dow sold below 10 times earnings. Those three times were 1942, 1949 and 1974. Each of those periods was characterized by a major bear market bottom. Furthermore, at the 1974 lows the Dow sold for 5.6 times earnings, and this period presented the greatest earnings-per-dollar bargain since the 1920's. The 1932 bear market bottom was unique in that the Dow produced an actual deficit, and thus the P/E Ratio in 1932 is seen to rise to infinity.

Now turn to the middle of the chart. Here we see the path of the Industrials with the dashed line representing the actual *book value* of the thirty stocks. Only three times since 1930 has the Industrial Average dropped below the total book value of its components. The first time was in 1934, the second time was in 1942, and the third time was in 1974. Note that in 1974, in terms of discount from book value, the Dow was a greater bargain than it was in 1942 (when the Dow was fluctuating in the low 90's.

The third test of the bear market bottom values shown on this chart is the cost of a dollar of Dow dividends (which is merely another way of expressing *yield*). Schabacker believes that any time you can buy $1 of Dow yield for $18 or less, the Dow is a bargain. Only five times since 1930 have you been able to do that. You could do it in 1932, 1938, 1942, 1949-51 and you could do it in 1974. Each of those areas corresponds to a bear market bottom (except for 1938, a crash low which did set off a big advance, although 1938 was not, in my opinion, a true primary bottom).

So, we've compared the 1974 bottom with all the major primary bear market bottoms since 1930. By the leading fundamental standards which I use, the 1974 lows saw stocks selling *below known values*. At the 1974 lows stocks were selling at bargain levels that appear perhaps once in a generation.

From the *duration* standpoint, the bear market had lasted eight years or from 1966 to 1974. That was almost half as long as the seventeen-year bull market of 1949 to 1966. From the standpoint of *extent*, the bear market wiped out over half (53%) of all the gains of the preceding 1949-66 bull market. Judging from a few of the leading unweighted stock averages, the 1966-74 bear market was the worst since 1929-32. During 1966-74 the unweighted averages lost 75% to 87% of their values (depending on which average you use). The 1966-74 experience fulfilled every condition of a major, extended, savage primary bear market.



If that is true, then a new primary bull market was born in late-1974. And that bull market is in force and continuing today. Our job now is to attempt to track the course of the new bull market, to understand what phase it is in, to watch as stocks move slowly and erratically to conditions of "adequately priced," "fully priced" and finally "over-priced." But to keep waiting for a new bear market collapse, in my mind, is to remain positioned on the *wrong side* of the market. It means that you are off balance, out of phase, watching and waiting for the wrong things to happen. Without the realization and acceptance of this being a primary bull market, one can only experience frustrations or losses (or both) as the bull market slowly unwinds in the period ahead. And that's why I harp and harp on the subject of the primary trend.

QUESTION: All right, Russell, I understand what you're saying, and maybe you've even convinced me. But in view of what you say, why do you bother talking about taking profits, cutting back if we have a severe reaction, being careful, etc. Why not simply ride the bull market out and forget all the intervening reactions. Better still, why not stop looking at the market at all, once you're invested?

ANSWER: I wrote in an early 1975 Letter that the average investor would probably be better off buying at the bear market lows and then taking a very extended vacation, a vacation lasting well into the third phase of the bull market. While I realize that a five to ten year vacation is hardly practical for my average hard-working subscriber, it would probably produce better market results than trading.

The late, brilliant Dow Theorist, E. George Schaefer, advocated buying very early in the bull market and simply adding to holdings at every reaction bottom, then selling "too soon" at the top (which he did beautifully in the 1949-66 bull

market). Robert Rhea, the great Dow Theorist of the 1930's, preferred to trade the secondary corrections, while being always mindful of the primary trend.

Personally, I have no objection to someone's buying very early in the bull market (which many of us did in December, 1974) and just sitting the whole bull tide out. But it is well to remember that a bull market can be subject to some whopping corrections, corrections which may wipe out one third to as much as two-thirds of your profits. So when I consider my nerves, my own make-up, and the pressure that I am faced with in this work, I personally prefer to try to avoid the big corrections which are bound to make their appearances during a bull market (particularly during the second phase of a bull market, the phase we are now in).

Furthermore, with today's very attractive interest rates, the bond and money markets offer us an excellent place to put our money when we step temporarily out of the stock market. And that is the reason why I advocated that subscribers hold from one-third to one-half of their assets (or even more) in bonds during the difficult year 1976. The fact that the bond market was in a strong bull phase during 1975-76 made debt instruments doubly attractive.

QUESTION: What are your views on pure speculation?

ANSWER: If you mean in-and-out trading, I advise against it. I advise against it because over any reasonable period of time, most people seem to lose their money at this exciting sport. There is no substitute for buying values during a primary bull market. I would say that 80% of the people I've ever known who have actually made money on Wall Street made it because (1) they knew the direction of the *primary trend*, and (2) because they were buyers of real *values*.

Incidentally, I've said before that the average person who has over $100,000 has no business speculating at all. I consider that kind of money real *capital*, a nest-egg capable of producing over $6,000 a year in tax-free Municipal bonds or $8-9,000 a year in high-grade bonds. Income of $6-9,000 can make a major difference in the average person's standard of living, and to my way of thinking, a man with $100,000 or more is in a rarefied situation, a situation which should be treated with utmost respect.

The man with a large chunk of capital (above $100,000) could put say 25% of it in a well-managed mutual fund or closed end fund (always in harmony with the primary trend, of course), place the rest of it in bond funds, and then reinvest the income from the bonds in the equity end (mutual fund) of his portfolio. Thus, he would have a reasonable inflation hedge, a deflation hedge, and a continuing source of income with a minimum of worry.

The young investor or the person with $50,000 or $25,000 or less should have as his aim, the systematic accumulation of capital. This always involves thrift, intelligent investing and patience. It should be remembered that capital (accumulated after today's high taxes) is a very difficult thing to come by, and I am constantly amazed at the way so many people throw their money around (and lose it), after having toiled and sweated for years and often decades to make it.

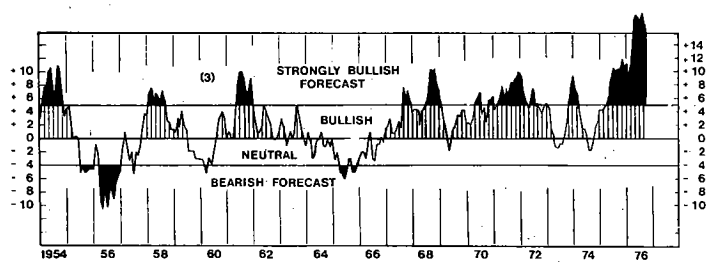
While I'm at it, I might as well tell my younger readers that they have one advantage which is a tremendous one—and that is *time*. We are living in a period of the ***highest interest rates since the Civil War***, and the power of compounded interest rates is one that I've tried over and over again to get across to subscribers.

For instance, municipal bonds now offer (Federal) tax free yields as high as 6.7%. This means that your money will double in such a fund in roughly ten years. During the entire span from the 1929 bull market top to the 1966 bull market top, the Dow Industrials increased at a rate of about 2.6% compounded. This comparison should be an eye opener for the average reader.

The point I am trying to get across (and I've been talking this way ever since early-1975) is that bonds should constitute an integral part of everyone's portfolio at this time. I feel that the fortune- building opportunities in high-yielding bonds (with a minimum of nervous nights) are still not appreciated by investors.

NOTES & COMMENTS: Jimmy Carter may not have to do anything about business, from the looks of the various graphs and charts in the November issue of the authoritative *Bank Credit Analyst*. For instance, editor Tony Boeckh notes that free reserves of the banking system jumped $13 billion in the first three weeks of October (over the previous month), and his chart shows that net free reserves have been "essentially positive since early 1975, the longest period since the first half of the 1960's."

Equally bullish is the *Bank Credit's* debit/loan ratio, which is the ratio of debit (money payments) to loans. When money payments (activity) is running high in relation to loans, Boeckh refers to this as "a boom build-up." It means that the ratio of business activity to loans is rising, probably due to conservatism on the part of business. Then when optimism increases, business steps up its loans and if this procedure (on a ratio basis) increases faster than activity, the debit/loan ratio recedes.



As you can see from Boeckh's chart, the debit/loan ratio is now in very bullish territory. Boeckh notes his indicator has been historically an excellent indicator of corporate profits and trends in corporate liquidity. As such, it is forecasting a continued sharp improvement in the financial position of companies.

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October wasn't all bad. There were 218 corporate dividend increases for the month, the best October for increases in the record (records are kept by *Standard & Poor's*). October also showed no dividend decreases, the first month on record to do so.

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Will-Go, which is the cumulated differential between the Dow yield and the bond yields (compared to the same statistic five weeks previous) has now moved up for 18 consecutive weeks! I have never seen such a consecutive string before. What Will-Go measures is the trend of favorable or unfavorable spreads between stock and bond yields. The current 18-week trend favors stocks (i.e., declining bond yields and rising stock yields). Historically, this had called for a good market advance.

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TAX-LAW: The current US tax law was set forth in 1913. In 1939 the tax law was revised. Then came the 1954 revisions. Next, the 1969 Tax Reform Act arrived. Following that came the 1972 "Reform" Act and next the horrendous 1974 Pension Reform Act. Along came the 1975 Tax Reduction Act. Congress is working on new tax acts and no one knows what Carter will bring in. Most tax accountants are ready to find a new way to make a living!

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Milton Friedman, winner of the 1976 Pulitzer Prize, isn't kidding around any longer. In the Nov. 15 issue of Newsweek he writes: "We must redouble our efforts. Unless we can limit the cancerous growth in government, unless we can stop the shift of power from city hall to Statehouse, and from Statehouse to the White House, there is little hope of maintaining a free political system. The longer the delay, the harder the task, because the tribe of bureaucrats grows apace. I am moved to paraphrase the call of the 'Internationale,': arise ye prisoner of taxation, you have nothing to lose but the IRS."

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It is a recognized fact that the *black vote* made the difference between victory and defeat for Jimmy Carter. As far as I am concerned, Carter won, and I don't care whether the black vote, the green vote, the orange vote or any other vote put him over the top. But what interests me is that Carter owes a ***huge debt*** to the black vote. And I think it's going to be reflected in a tough policy towards S. Africa. Which is another reason why I don't put the S. African mines on the "investment" list.

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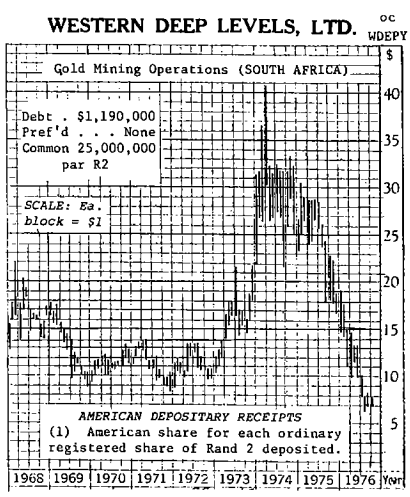
Joseph Granville has been one of the top market analysts ever since I started in this difficult business. Recently Prentice Hall has published Joe's new book, *"Granville's Strategy of Daily Stock Market Timing for Maximum Profit."* Joe has originated many of the techniques and indices which are now "household words" in technical analysis, and his new book is outstanding.

Last week Granville wrote me stating, among other things, that "Paradoxically, any bad news now would be ultimately bullish because then Carter will 'do something' in January." I tend to agree with Joe.

GOLD: Gold has been moving up because the bear market for gold ended on August 26 at 103.50, and when the worst is discounted, the next direction is up. "How much higher?" That's the question. I consider this the automatic panic-rebound following the panic decline down to the August 26 low for gold. If gold were to recover exactly half its losses from the 197.50 high to the 103.50 low, it would climb back to 150.50. I think there is a good chance that gold could test that level, maybe test it this year.

But I think there is also a very good chance that gold will fluctuate in the 125-150 area for many months. When you figure that it costs around $80 to produce gold (on average) today, gold at 103 was getting near production and distribution costs, which is the low or even the "bargain" area. At 150 I feel that gold is at the healthy end of being fully priced. A lot of today's gold buying, I feel, is coming from Arab sources who want to get out of pounds, who have "enough" in the US, and who want to diversify. Other gold purchases have come from those who are afraid that inflation is going to return with a vengeance.

All very good, but I still don't see the need for large holdings of gold at this time. Fear of a whopping oil price boost is also bringing money into gold, but remember, the Arabs now have huge investments in the US and they also rely mightily on US arms and parts. They're not as "free" to boost oil prices as they were, nor is the oil market as strong as it was. So let's see what the oil price boost is going to amount to.


WESTERN DEEP LEVELS, LTD. OC WDEPY
Gold Mining Operations (SOUTH AFRICA)
Debt . $1,190,000
Pref'd . . . None
Common 25,000,000
par R2
SCALE: Ea. block = $1
AMERICAN DEPOSITARY RECEIPTS
(1) American share for each ordinary registered share of Rand 2 deposited.
1968 1969 1970 1971 1972 1973 1974 1975 1976 Year
$ 40 35 30 25 20 15 10 5

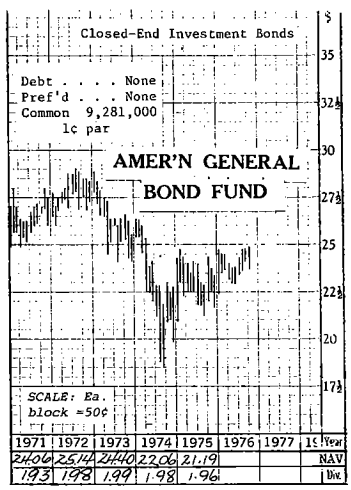
If it's 10% or less, I would be even more convinced of a 150 ceiling for gold.

I have been saying that it's alright to place 5% of assets in modern gold coins. You can raise it to 10%, now that gold's in a bull market. I wouldn't go higher than that. And I wouldn't rush into gold shares. Incidentally, this monthly chart (courtesy of M.C.Horsey) shows that shocking collapse in one of the great gold mines of S. Africa, Western Deep. Note that WDEPY broke its 1969-1972 major support (at around 8½) during the decline. It always bothers me when major long-term support is broken, and I feel that such action tells us that something very *fundamental has changed* in the stock. This is what I think has happened to the gold shares of S. Africa. The racial situation (which has not even begun to be solved) has fundamentally changed the long-term outlook for these shares.

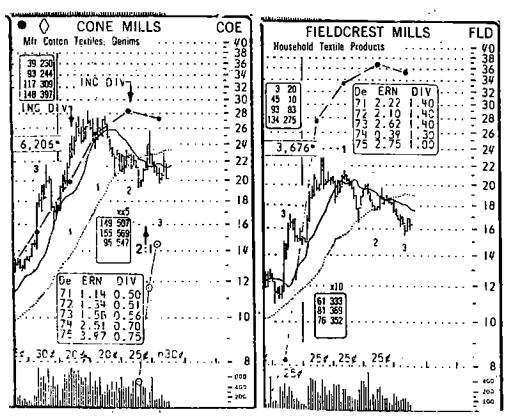
LATE MARKET NOTES: I suppose I am just repeating what I said earlier, but we still have a long string of downside non-confirmations, not the least of which is the D-J Transports. They show *no signs of wanting to confirm* the penetration (below the October 12 low) by the Industrials. The *longer* the Transports refuse to confirm to the downside, the more the build-up of technical strength and the greater the odds that the market's next direction is due North.

So far, Wall Street has been absorbing a truckload of bad news, and everything I read tells of the soggy economic story. As far as the market's concerned, it's all history. The Averages are looking *ahead*, and whatever they see is obviously holding those Transports above 203.85. As long as that's the case, I'm bullish on the ***secondary*** trend. I've been bullish on the ***primary*** trend since December, 1974.

STOCKS: I spent part of the weekend going through hundreds of monthly charts put out by *Horsey* of Salisbury, MD 21801. I don't make the charts, but I believe that Amer. General Bond Fund (that's right, a bond fund) had the most bullish pattern of any stock on the NYSE. I guess that's telling us that bonds are still good, and going to get better.


Closed-End Investment Bonds
Debt . . . None
Pref'd . . . None
Common 9,281,000
1¢ par
AMER'N GENERAL
BOND FUND
SCALE: Ea. block =50¢
1971 1972 1973 1974 1975 1976 1977 Year
NAV 24.06 25.14 24.40 22.06 21.19
Div. 1.93 1.98 1.99 1.98 1.96
$ 35 32½ 30 27½ 25 22½ 20 17½

Textile stocks are now on the bargain table (by historical standards) with many of them selling at one-third to one-half book value (and I'm not talking about replacement value). Two basic textile stocks which I think are now values are *Cone* and *Fieldcrest*. Cone is selling for about 3.5 times earnings to yield better than 5%, and Fieldcrest is selling at 4.6 times earnings to yields about 6%. Both of these are time-tested textile companies (charts courtesy of QUOTE, P. O. Box 213, Wichita, Kansas 67201.



NEXT MAILING: December 1, 1976